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# REPORT TO THE CONGRESS

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## Relending Programs Could Be Made More Effective In Promoting U.S. Exports

B-114823

Export-Import Bank of the United States

B-114823

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

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JAN. 23, 1973



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

B-114823

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To the President of the Senate and the  
Speaker of the House of Representatives

This is our report on how relending programs could be made  
more effective by the Export-Import Bank of the United States. 170

We made our review pursuant to the Budget and Accounting Act,  
1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950  
(31 U.S.C. 67).

We are sending copies of this report to the Export-Import Bank  
of the United States; the Secretaries of State, Commerce, and the  
Treasury; and the Federal Reserve Board.

A handwritten signature in cursive script that reads "James B. Stets".

Comptroller General  
of the United States

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ABBREVIATIONS

Eximbank Export-Import Bank of the United States  
GAO General Accounting Office  
SBA Small Business Administration  
WTDR World Trade Directory Report

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D I G E S T

WHY THE REVIEW WAS MADE

Because of recent balance-of-trade problems, the General Accounting Office (GAO) is making a series of reviews to see how U.S. Government programs for increasing exports are being administered and how they might be improved.

The importance that the Congress attaches to export financing is indicated by recent legislation increasing the loan, insurance, and guarantee authority of the Export-Import Bank of the United States (Eximbank) from \$13.5 billion to \$20 billion.

This report concerns Eximbank's relending credit program (now the relending facility program). Under the program, Eximbank extends 6-percent loans to financial institutions (intermediaries), generally in developing countries. They, in turn, subloan to local firms to finance imports of U.S. goods or services.

FINDINGS AND CONCLUSIONS

GAO evaluated the program in Brazil because it is the largest recipient of relending credits. As of December 31, 1971, Eximbank had authorized a total of \$106 million, of which \$28 million, or 26 percent,

went to 10 Brazilian intermediaries. As of November 1971 the intermediaries had authorized relending credit subloans of about \$15.5 million.

Program considerations and objectives

Eximbank's basic policy in this program is to provide financing without which U.S. export sales would not be made. The relending credit program is designed to

- assist small- and medium-sized foreign firms to purchase U.S. products and services,
- finance smaller transactions (\$10,000 to \$200,000) not normally appropriate under other Eximbank programs,
- encourage small- and medium-sized U.S. companies to export,
- introduce U.S. products to foreign markets and assist U.S. companies to establish distribution channels, and
- expand cooperative working relationships with financial institutions.

The program in Brazil

Eximbank has no system for providing management with specific information

to evaluate the effectiveness of relending programs. (See p. 24.)

Few sales of U.S. products which would not otherwise have been made have occurred under the program. GAO interviewed officials of 31 firms that were authorized about \$6.3 million in relending credit subloans and found that:

- Seventeen, authorized \$2.5 million, would have purchased in the United States regardless of the availability of relending credits. (See pp. 12 to 14.)
- Two, authorized more than \$400,000, subsequently obtained financing elsewhere for the purchase of U.S. equipment. (See pp. 14 and 15.)
- Seven firms, authorized \$670,000, would not have purchased in the United States if Eximbank credits had not been available. (See p. 15.)
- Although officials of the remaining five firms, which received \$2.8 million, were not sure if they would have imported from the United States, indications are that at least three, which received \$2.3 million, would have purchased in the United States without Eximbank assistance. (See pp. 15 and 16.)

Although the program expanded Eximbank's relationships with foreign financial institutions (see p. 25), other program objectives were not being achieved.

- In assisting small- and medium-sized foreign firms to purchase U.S. products and services, the majority of relending credits went to large Brazilian companies. (See pp. 17 to 21.)

--In financing smaller transactions up to \$200,000, most relending credits were for subloans of more than \$200,000. (See pp. 21 and 22.)

--In introducing U.S. companies and products to the Brazilian market, only 19 percent of the relending credits were used to finance sales of U.S. firms which had no agents or sales subsidiaries in Brazil. (27 of 31 firms visited had previously purchased U.S. equipment without Eximbank assistance, and most of the exporters had previously sold to the Brazilian companies.) (See p. 23.)

--In assisting small- and medium-sized U.S. companies to export, only 5 percent of the relending credits were used to finance sales of small- and medium-sized U.S. companies. (See pp. 23 and 24.)

Many subloan repayment periods exceeded those customary in international trade, thus delaying favorable impact on the U.S. balance of payments and putting off new opportunities to finance U.S. exports. (See p. 17.)

#### RECOMMENDATIONS OR SUGGESTIONS

Eximbank should:

- Establish a formal reporting system which will provide management with documented evidence of program effectiveness and intermediary performance. In this way Eximbank would have a basis to make appropriate changes to better attain program objectives.
- Provide for a flexible fee structure so that intermediaries can recoup additional administrative

costs associated with increased reporting requirements and servicing smaller loans.

The Small Business Administration (SBA) has indicated a willingness to administer a loan program; such an arrangement could assist Eximbank in reaching smaller U.S. firms. Accordingly, GAO suggests that Eximbank consider establishing a relending credit line administered by SBA.

AGENCY ACTIONS AND UNRESOLVED ISSUES

Eximbank believes that GAO's efforts

were misdirected and that the recommendations are without merit. GAO disagrees. Eximbank's comments and GAO's detailed evaluations are included as appendix II.

MATTERS FOR CONSIDERATION BY THE CONGRESS

Improving Eximbank's relending programs along lines suggested in this report would strengthen the national effort to increase export sales of U.S. goods and services.

INTRODUCTION

In recent years the U.S. balance-of-trade position has deteriorated. In 1971 the United States experienced its first deficit since 1888, \$2 billion; in the first three quarters of 1972 there was a \$4.8 billion deficit, the largest ever. These unfavorable balances have focused attention on the need to increase exports, which produce about two-thirds of our foreign exchange earnings and provide three million jobs.

Both Government and business have recognized the importance of export financing. The Chamber of Commerce of the United States reported that in 1970, with world trade expanding faster than international liquidity, an ever-increasing amount of export sales were made on credit and that financing often determined which company or country would make a sale because other countries could produce quality goods at less cost than the United States.

The National Export Expansion Council, a group of business leaders appointed by the Secretary of Commerce to advise on trade matters, stated that:

"Exports move on credit. Our failure as an exporting nation to heed and act on this simple precept accounts to an important extent for the continuing loss of our traditional overseas markets and the virtual disappearance of a U.S. trade surplus."

The importance that Congress attaches to export financing is indicated by recent legislation increasing the loan, insurance, and guarantee authority of the Export-Import Bank of the United States (Eximbank) from \$13.5 billion to \$20 billion. Eximbank is the principal Government agency responsible for financing exports and, since its inception in 1934, has supported \$44 billion in exports through direct loans, guarantees, and insurance.

The Export-Import Bank Act of 1945 (12 U.S.C. 635), as amended, requires Eximbank to supplement and encourage, not

compete with, private capital and to make loans having reasonable assurance of repayment. In recognition of the restriction against competing with private capital, its President considers Eximbank a lender of last resort. Its financing is intended to enable U.S. firms to sell to foreign importers unable or unwilling to purchase for cash and unable to obtain credit from private sources. Eximbank loans also permit U.S. companies to compete with foreign firms receiving subsidized governmental financing.

The United States gains its most immediate balance-of-payments advantage when exports are sold for cash or financed with other than U.S. funds. Eximbank financing provides the United States with direct benefits only if there is export additionality--export sales which would not otherwise be made. To the extent that a foreign company uses alternative sources to pay for its purchases of U.S. goods, Eximbank's resources can be made available to companies otherwise unwilling to purchase from U.S. suppliers.

This report discusses the role of Eximbank in promoting increased exports to Brazil through its relending credit program. Relending credits are direct loans to foreign financial institutions (intermediaries) who relend to importers of U.S. goods and services. Brazil was selected as a case study because it is the largest recipient of relending credits. As of December 31, 1971, Eximbank authorized \$106 million in relending credits, of which \$28 million, or 26 percent, were to 10 Brazilian intermediaries. Appendix I lists the credits by country as of July 1971.

#### SCOPE OF REVIEW

We did our work at Eximbank in Washington, D.C., and at the U.S. consulates in Rio de Janeiro and Sao Paulo, Brazil. We reviewed pertinent records and held discussions with Eximbank officials, officials of intermediaries, selected firms which received subloans, and commercial and government bankers in Brazil. We interviewed representatives of U.S. companies, Brazilian agents of U.S. and third-country firms, and officials of the U.S. Department of Commerce. No financial audits were made.

## CHAPTER 2

### RELENDING PROGRAMS

Eximbank has two relending programs, a relending facility (formerly the relending credit program) and a cooperative financing facility, which finance importers (sub-borrowers) of U.S. goods and services through intermediaries. Eligible intermediaries include overseas branches and affiliates of U.S. commercial banks and trading companies; and foreign commercial, investment, and development banks, trading companies, and other financial institutions.

Eximbank charges intermediaries an interest rate of 6 percent a year and a commitment fee on undisbursed funds. It limits the interest rate charged to subborrowers by intermediaries to 8-1/2 percent a year plus taxes, devaluation insurance, or other charges unique to the particular country. Eximbank believes this rate is adequate to cover operational costs, commitment fees, and commercial risk and to provide a profit.

Each subloan agreement between intermediary and sub-borrower provides for:

1. A cash payment by the subborrower, on or before delivery, of at least 10 percent of the invoice value of the U.S. goods and services.
2. Payment of the principal and interest in semiannual or more frequent installments over the term of the subloan.

Subloan payment periods are based on those customary in international trade. These programs are basically intended to finance goods and services for which the customary payment term is 1 to 5 years.

### PROGRAM OBJECTIVES

In addition to financing exports which would not otherwise be made, relending programs are designed to

- assist small- and medium-sized companies to purchase U.S. products and services,
- assist in consummating transactions of moderate amounts,
- assist small- and medium-sized U.S. companies to export,
- introduce U.S. products to foreign markets and assist U.S. companies to establish distribution channels, and
- expand cooperative working relationships with financial institutions.

#### RELENDING CREDIT--RELENDING FACILITY PROGRAM

In the late 1960s Eximbank extensively reviewed its lending practices; this resulted in a revised relending credit program, described as a major feature of national export expansion activities.

Under this revised program Eximbank extended a line of credit to intermediaries for relending to importers of selected U.S. equipment. The type of equipment eligible for financing is determined on the basis of a decreasing U.S. market share or a potential new market. Intermediaries re-lend 90 percent of the invoice value of the equipment, and borrowers pay the balance in cash. Subloans over \$200,000 and those resulting in a subborrower receiving more than \$500,000 in credits require prior approval by Eximbank's Board of Directors. Subborrowers may be manufacturing firms, contractors, farm operators, cooperatives, distributors, dealers, etc. Payments by intermediaries to Eximbank are made semiannually over 6 years, including a 1-year grace period, unless individual subloans have different payment periods.

In August 1971 the program was again revised and was renamed the relending facility. The revisions were minor and included Eximbank approval for subloans of \$100,000 or more and for subloans to companies which had previously received over \$200,000 in credits. Some changes were designed to reduce paperwork and time involved in subloan approval.

At the time of our visit in December 1971, only one relending facility credit for \$2 million was authorized for Brazil and no disbursements had been made.

#### COOPERATIVE FINANCING FACILITY

In 1970 Eximbank instituted a cooperative financing program which, in many respects, is similar to the relending credit program. Under this program, Eximbank enlists the cooperation of intermediary financial institutions abroad to extend loans to purchasers of U.S. goods and services. Eximbank lends the intermediaries 50 percent of the funds at 6-percent interest and the intermediaries provide the remainder. If the intermediary wishes to borrow its portion of the financing, Eximbank can assist by guaranteeing the loan. There are no restrictions on eligible countries and products.

As of December 1971, Eximbank had negotiated 92 cooperative financing agreements totaling \$772 million and, although 14 intermediaries in Brazil were authorized about \$125 million, no disbursements had been made at the time of our visit in December 1971.

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CHAPTER 3BRAZIL--A CASE STUDY

Eximbank has no formal reporting system to provide documented evidence of the success of its relending activities. Eximbank officials stated that all programs were continually monitored and evaluated on the basis of information gathered by the staff during visits to intermediaries and through routine program administration. We found no documentation on these activities. We therefore measured the effectiveness of the Eximbank relending credit program in Brazil in terms of its objectives. (See p. 7.) We found that, for the most part, relending credits

- resulted in little export additionality; few sales of U.S. goods were made which would not otherwise have been made,
- were used in subloans of more than 200,000,
- went to large Brazilian firms,
- financed sales of large U.S. companies, and
- did not assist in introducing U.S. products or in establishing distribution channels for U.S. companies.

On the positive side, relending credits assisted Eximbank in strengthening relationships with intermediaries.

EXPORT ADDITIONALITY

Although Eximbank policy requires that relending credits achieve export additionality, subloans in Brazil resulted in few sales of U.S. goods which would not otherwise have been made.

A memorandum from Eximbank's Development Officer to the President of Eximbank dated October 13, 1969, reported that:

"It is this market consisting of small and medium sized firms in many countries throughout the

world that should now be penetrated by U.S. exporters with Eximbank assistance through carefully planned and negotiated relending credits. Recent discussions with a number of private foreign financial institutions has revealed that there is a real need for relending credit financing in many developing countries throughout the world and that such financing would clearly result in additional exports of U.S. capital equipment items."

The memorandum specifically identified Brazil as one of the most promising countries for increasing U.S. exports through extending relending credits.

The following table shows the relending credits extended to Brazilian intermediaries as of November 1971.

Relending Credits  
Extended to Brazilian Intermediaries

<u>Intermediary</u>	<u>Amount</u> <u>(millions)</u>	<u>Date</u> <u>authorized</u>	<u>Subloans authorized</u> <u>as of November 1971</u>	
			<u>Number</u>	<u>Amount</u> <u>(millions)</u>
A	\$ 5.0	3-5-70	31	\$ 3.3
B	2.0	3-5-70	14	1.1
C	1.0	3-5-70	6	1.0
D	5.0	3-5-70	10	1.9
E	1.0	4-6-70	5	1.0
F	5.0	6-15-70	(a)	(a)
G	6.0	6-15-70	51	5.0
H	1.0	9-21-70	6	1.0
I	1.0	9-24-70	2	1.0
J	<u>1.0</u>	12-30-70	<u>3</u>	<u>.2</u>
Total	<u>\$28.0</u>		<u>128</u>	<u>\$15.5</u>

<sup>a</sup>An official of intermediary F advised us that \$1.5 million in subloans had been authorized. Although he discussed the bank's experience under the program, he did not think it appropriate that we visit the subborrowers. He refused to give us information on subloans, stating that such information had already had been given to Eximbank. We therefore excluded this bank's subloans from our analyses.

Approximately 90 products or product categories were declared eligible for financing with relending credits. The 1968 Brazilian imports of these items amounted to \$215 million, or 33 percent of total capital goods imports.

Eximbank officials stated that they did not determine the extent to which relending credits resulted in additional U.S. exports because they believed the intermediaries were obligated to determine this. However, nine of the 10 Brazilian intermediaries were not doing so, and most of their officials had no idea of what additional U.S. exports resulted from participation in the program. Officials of three institutions, which authorized about \$3.5 million in subloans, indicated they believed most procurements would have been made in the United States regardless of the availability of relending credits.

In the absence of alternative methods to determine export additionality, we visited 31 firms that were authorized subloans of \$6.3 million, or 41 percent, of the \$15.5 million total. We asked officials whether their companies would have purchased the U.S. equipment financed with relending credits had Eximbank financing not been available and obtained the following information.

Seventeen companies, authorized \$2.5 million, would have imported equipment from the United States regardless of the availability of relending credits. For example:

Case 1--Eximbank's Board of Directors approved a subloan for more than \$500,000 to a firm operating seven factories and employing over 4,000 people. The firm, founded in 1920, currently has machinery and equipment valued between \$7 and \$8 million. Annual sales are about \$30 million.

A large U.S. corporation owns a small share in the firm and has a licensing agreement with it. The corporation provided technical assistance for the project involving the relending credits and recommended the equipment to be purchased. The U.S. exporter involved is a subsidiary of the same U.S. corporation.

The firm had previously purchased \$2.5 million worth of the same machinery and equipment from the United States

without Eximbank assistance. Although the firm prefers Eximbank financing, it would have purchased the equipment without it.

The information was provided by a director of the firm.

Case 2--\$65,000 was subloaned to a company established in 1968. It employs about 300 people and is owned 55 percent by a large U.S. corporation and 45 percent by a Brazilian firm controlled by a Canadian company.

The equipment purchased with the subloan involved only a small portion of a \$2.5 million project. The parent U.S. corporation, which also recommended the equipment to be purchased, furnished technical assistance for the project. The company paid cash for about \$500,000 of U.S. equipment purchased, except for that financed with the \$65,000 relending credits; it would have paid cash for this equipment if Eximbank credits were not available.

The information was supplied by the company's financial director.

Case 3--Over \$125,000 was subloaned to a company founded in 1920 which has two plants, a total work force of 400, and Brazilian ownership.

The company imports equipment from the United States, France, Germany, England, and Italy. Previous imports from the United States were financed through local banks.

The equipment financed with the relending credits was purchased in the United States, because of its superior quality. The company's president considered machinery manufactured in many other countries but decided to purchase from the United States after visiting the manufacturer. Eximbank financing was not essential and the equipment would have been purchased from the United States regardless of its availability.

The information was supplied by the company's president.

Case 4--Two subloans, totaling over \$50,000, were made to a firm having three plants and employing about 1,750

people. The firm was established in 1951 and is owned by Brazilians.

Because Swedish technology is used in its operations, most of the firm's equipment is purchased from Sweden. However, because of the superior quality of the specific U.S. equipment financed with relending credits, no other source of supply was considered.

The firm's manager-director stated that "the decision to buy [the equipment in the United States] was not based upon the availability of Eximbank credit."

Two companies, authorized over \$400,000 in credits, obtained other financing for the purchase of U.S. equipment and therefore will not use relending credits.

Case 1--Eximbank's Board of Directors approved a subloan for over \$200,000 to a subsidiary of a Canadian firm established in 1961. All the firm's equipment is purchased from the United States. The firm had no previous dealings with Eximbank and generally paid cash for its equipment purchases. The United States was the only source for the equipment to be purchased with the subloan, so Eximbank assistance was not essential.

The firm, however, did not use the relending credits because it was able to obtain commercial bank financing at a lower interest rate.

The information was supplied by the firm's general manager.

Case 2--\$200,000 was subloaned to a Brazilian firm, employing about 110 people and founded in 1943. Equipment of the type to be financed with the subloan had previously been purchased in Europe.

Relending credits were not used because of the delay associated with obtaining approval. The equipment was needed quickly, so financing was arranged with a Brazilian affiliate of a Dutch bank. The interest rate was comparable, but the payment period was for only 1-1/2 years versus Eximbank's 4-1/2 years.

Eximbank financing will be sought for future U.S. purchases because of the longer payment periods.

The above information was obtained during an interview with a director of the firm.

Seven firms, authorized \$670,000, would not have imported equipment from the United States had relending credits not been available. For example:

Case 1--Over \$20,000 was subloaned to a Brazilian-owned firm founded in 1957 and employing 83 people. Equipment was purchased from the United States because of the availability of Eximbank financing. This equipment will require approximately \$75,000 in complementary U.S. equipment which the firm hopes to finance through relending credits. The firm is also planning to import \$30,000 in equipment, of which \$5,000 will be bought in the United States if Eximbank assistance can be obtained.

This information was obtained during an interview with a partner in the firm, who also stated that small firms cannot afford local financing and that a program, such as relending credit, is needed. He stated that large firms have a reasonably easy time obtaining import financing.

Case 2--Over \$100,000 was subloaned to a firm employing about 2,000 people. The firm was established in 1956 and has French and Brazilian ownership.

Equipment was purchased because of the financing offered through the relending credit program. European equipment was considered but the payment periods were less liberal than those of Eximbank. This was the firm's first purchase from the U.S. exporter.

This information was obtained from an official of the firm.

Five firms, authorized \$2.8 million, did not know whether they would have imported equipment from the United States without Eximbank financing. However, the following information indicates Eximbank financing was not essential in at least three instances.

Case 1--A subsidiary of a large U.S. corporation received about \$1.6 million in relending credits, or about 10 percent of the total \$15.5 million authorized by the intermediaries, to finance purchases of U.S. machine tools. The company has two plants in Brazil, employing about 3,100 people. The company purchased over 90 percent of its machine tools from the United States without Eximbank assistance. It prefers U.S. equipment because of quality and employee familiarity with the equipment.

This information was obtained from the company's director-president.

Case 2--A firm received over \$500,000 in relending credits. The firm employs about 60 people and is controlled by a large U.S. corporation which has other investments in Brazil, including an interest in a commercial bank.

The U.S. parent corporation supplied technical assistance for the project and dictated the type and source of equipment to be purchased. Its board of directors approved the project before relending credits were available in Brazil. The firm's operations are conducted under a licensing agreement with the corporation.

This information was supplied by the firm's director-president.

Case 3--A firm received three subloans totaling over \$200,000. The company was established about 25 years ago and employs about 200 people.

Although this firm imports from a number of countries, the sole source for the equipment financed with relending credits was the United States. Previous purchases of this equipment were made in the United States and financed through Brazilian banks. The firm prefers Eximbank financing but will purchase U.S. equipment in the future without it if it is not available.

This information was obtained from an owner of the firm.

## Terms of subloans

Although loan agreements between Eximbank and intermediaries state that subloan payment periods will be those customary in international trade, many subloans involved longer periods. The loan agreements also state that, when an intermediary grants subloans for less than 5 years, it may either pay Eximbank on the basis of the payment period extended to the subborrower or reloan the funds to finance further imports of U.S. goods.

Subloans involving payment periods in excess of those customary in international trade can delay the U.S. balance-of-payments impact of a given transaction and eliminate the opportunity to finance additional U.S. exports. The following schedule shows the number of subloans not meeting the repayment terms customary in international trade as defined by Eximbank.

<u>Customary terms in international trade (note a)</u>	<u>Subloans meeting terms</u>	<u>Subloans not meeting terms</u>	<u>Total</u>
Up to \$25,000, up to 3 years	19	12	31
\$25,000 to \$150,000, up to 4 years	25	41	66
Over \$150,000, up to 5 years	<u>31</u>	<u>-</u>	<u>31</u>
Total	<u>75</u>	<u>53</u>	<u>128</u>

<sup>a</sup>As defined by Eximbank.

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SIZE OF FIRMS

The program is designed primarily to assist small- and medium-sized firms to purchase U.S. equipment, but neither Eximbank nor intermediary banks had defined the term "small- and medium-sized firms." In the absence of other criteria we used World Trade Directory Reports (WTDR) and criteria of the Small Business Administration (SBA) to classify firms and found that subloans were made primarily to larger firms.

Eximbank, in publications and in official testimony, stressed assisting smaller firms. For example, the President of Eximbank, in a July 1970 memorandum to the board of directors, stated that:

"While there will be no restriction on the size or net worth of the borrowers from the Relending Institution, it is expected that major effort will be made toward the extension of loans to entities considered in the medium and smaller size category of the recipient country. If the Relending Institution, in its administration of a Relending Credit, finds that it is undesirable or impossible to observe this principle, the Eximbank will consider cancelling the credit at an appropriate time and refusing additional credits."

During hearings on fiscal year 1972 appropriations before the Subcommittee on Foreign Operations and Related Agencies of the House Committee on Appropriations, the President of Eximbank made the following statement:

"The relending program has been completely revised to where it is now a bona fide promotional tool for the selling of U.S. goods to small and medium sized customers who lack the knowledge or sophistication to otherwise finance, their purchases."

In Brazil relending credits were initially restricted to firms having a net worth of \$1.5 million or less. This criterion had been suggested by the Embassy and approved by

Eximbank. We were advised that in June 1970, at a meeting with the President of Eximbank, representatives of the intermediaries objected to the \$1.5 million limitation. As a result it was eliminated, and the determination of size of eligible firms was left to the intermediaries.

Officials of intermediaries stated that they do not have criteria for determining the size of a firm eligible for relending credits and that subloans to firms of questionable size are forwarded to Eximbank for approval.

Subborrowers, agents for U.S. firms, and other members of the Brazilian business community, advised us that the small- and medium-sized firms experienced the greatest difficulty in obtaining financing. However, because of the risk involved, most intermediaries expressed little interest in extending subloans to smaller firms. Some intermediaries indicated that such applicants were usually referred to finance companies from which they could obtain local currency loans which could be converted into dollars. The interest rate on such loans is about 35 percent, which includes a 15- to 20-percent inflationary factor.

One intermediary requires risk insurance for loans of \$20,000 or less. The cost of this insurance is about 2.4 percent annually. An official of the institution stated that, although many small firms initially applied for subloans of \$20,000 or less, the additional cost of risk insurance discouraged most of them.

The results of our tests on the size of firms obtaining relending credits based on WTDR classifications and criteria established by SBA are discussed in the following sections.

#### WTDR classifications

WTDRs are prepared by U.S. Embassies and classify host country business firms on a relative scale as small, medium, large, and very large. They provide detailed information on foreign firms, including type of organization, sales, and capital. The Foreign Credit Insurance Association, an unincorporated group of about 50 leading insurance companies which cooperate with Eximbank, uses WTDRs as one means of

evaluating creditworthiness of foreign purchasers of U.S. goods and services.

We were able to obtain WTDRs on firms which received 66 relending credit subloans involving \$9.44 million, or 61 percent of the \$15.5 million authorized. The following table shows that more than 90 percent of the \$9.44 million went to large or very large firms.

<u>Size</u>	<u>Number of subloans</u>	<u>Percent</u>	<u>Amount of subloans (millions)</u>	<u>Percent</u>
Very large	29	43.9	\$5.0	53.0
Large	26	39.4	3.5	37.5
Medium	10	15.2	.9	9.1
Small	<u>1</u>	<u>1.5</u>	<u>.04</u>	<u>.4</u>
	<u>66</u>	<u>100.0</u>	<u>\$9.44</u>	<u>100.0</u>

SBA criteria

In determining eligibility of small manufacturing firms for loans, SBA compares the number of employees in the firms with the industry average. For example, a manufacturer of metal cans is allowed up to 1,000 employees. Construction firms are considered eligible if average annual sales for 3 years do not exceed \$5 million. Firms meeting these criteria are considered small or medium.

Using SBA's criteria, we classified firms that had received \$9 million, or 58 percent, of the \$15.5 million authorized and found that 85 percent of the funds went to large Brazilian companies, as shown below.

<u>Size (note a)</u>	<u>Number of subloans</u>	<u>Percent</u>	<u>Amount of subloans (millions)</u>	<u>Percent</u>
Large	41	74.5	\$7.6	85
Medium or small	<u>14</u>	<u>25.5</u>	<u>1.4</u>	<u>15</u>
Total	<u>55</u>	<u>100.0</u>	<u>\$9.0</u>	<u>100</u>

<sup>a</sup>For construction firms we used 1-year sales, which was the only information available. Such firms received seven subloans, totaling about \$1.8 million.

### Composite analysis

We prepared a composite analysis using both WTDRs and SBA criteria. When inconsistencies occurred, we classified the firms as small- and medium-sized. We classified firms that had received \$12.2 million, or 78.7 percent, of the \$15.5 million authorized and found that about 86 percent of the funds went to large firms.

<u>Size</u>	<u>Number of subloans</u>	<u>Percent</u>	<u>Amount of subloans (millions)</u>	<u>Percent</u>
Large	62	77.5	\$10.5	86.2
Medium or small	<u>18</u>	<u>22.5</u>	<u>1.7</u>	<u>13.8</u>
Total	<u>80</u>	<u>100.0</u>	<u>\$12.2</u>	<u>100.0</u>

### Relationship of size of firm to export additionality

There appears to be a relationship between size of firm and export additionality. The likelihood of export additionality is increased when subloans are extended to small- and medium-sized firms. This is based on the following analysis, which shows that 67 percent of subloans to small- and medium-sized firms resulted in export additionality compared with about 17 percent for large firms.

<u>Size</u>	<u>Number</u>	<u>Additional</u>	<u>Nonadditional</u>
Large	18	3	15
Medium or small	<u>6</u>	<u>4</u>	<u>2</u>
Total	<u>24</u>	<u>7</u>	<u>17</u>

### SIZE OF SUBLOANS

Although the program was designed primarily to finance transactions of \$200,000 or less, most funds went for subloans in excess of this amount. Eximbank publications stated that subloans in excess of \$200,000 generally were

not appropriate under the program. Eximbank's President informed the Brazilian Government that no subloan was to exceed \$200,000, and, in a speech before the American Chamber of Commerce in Sao Paulo, Brazil, he stated that the program was intended to finance transactions of between \$10,000 and \$200,000.

The following table shows that about 19 percent of the subloans authorized, involving approximately 58 percent of the funds, exceeded \$200,000.

<u>Subloan amount</u>	<u>Number of subloans</u>	<u>Percent</u>	<u>Amount (millions)</u>	<u>Percent</u>
\$0 to \$25,000	31	24.2	\$ 0.5	3.2
\$25,000 to \$50,000	26	20.3	.8	5.2
\$50,000 to \$100,000	24	18.8	1.9	12.3
\$100,000 to \$200,000	23	17.9	3.3	21.3
over \$200,000	<u>24</u>	<u>18.8</u>	<u>9.0</u>	<u>58.0</u>
Total	<u>128</u>	<u>100.0</u>	<u>\$15.5</u>	<u>100.0</u>

Officials of intermediaries generally were reluctant to finance smaller transactions with relending credits. Most institutions established minimum subloan amounts of from \$20,000 to \$50,000, and one attempted to keep all subloans above \$100,000. Officials stated that smaller subloans were undesirable because of the relatively high administrative costs involved.

INTRODUCING U.S. PRODUCTS AND  
ESTABLISHING DISTRIBUTION CHANNELS

The program, for the most part, has not assisted in introducing U.S. products or in establishing distribution channels.

An objective of the program is to introduce U.S. firms and products to foreign markets and to assist U.S. companies in establishing product distribution channels. The President of Eximbank in "Association Management" (July 1971) reported that a sizable portion of the importers using relending credits were either new customers or customers previously having limited experience with U.S. goods.

During discussions with subborrowers we obtained the following information regarding prior import experience.

- Of 28 firms which had previously imported equipment, 27 had purchased from the United States and only three of these had ever used Eximbank financing.
- In 29 of 37 transactions, the U.S. exporter(s) involved in relending credit transactions had previously sold to the Brazilian firms without Eximbank assistance.
- In 27 of 36 transactions, the item(s) financed with relending credits had been previously purchased from the United States without Eximbank assistance.

In assisting U.S. firms to establish distribution channels, we noted that \$12.5 million, or 81 percent, of the \$15.5 million authorized, was used to finance sales of U.S. exporters already having agents or sales subsidiaries in Brazil.

SIZE OF EXPORTERS

Most relending credits were used to finance sales of large U.S. companies.

The President of Eximbank reported that the program provided a means for smaller U.S. firms to export. A

background paper prepared by Eximbank noted that many small- and medium-sized U.S. producers were able to participate in foreign markets through the program.

The Chamber of Commerce of the United States indicated the need for a financing program to assist smaller U.S. firms to export when it reported that, for the most part, such firms do not extend suppliers' credit, do not have regular contact with Eximbank or commercial banks regarding export financing, and are discouraged by the complexity of export financing. The Chamber concluded that the "ability or willingness to engage in export financing \*\*\* becomes more a function of the size and financial strength of the company."

During a meeting of the Interagency Committee on Export Expansion, an SBA representative stated that Eximbank could do more to help small business and suggested that Eximbank allow SBA to administer a small loan program because small firms were hesitant to approach Eximbank.

The SBA classified by size U.S. companies which had sales of \$13.1 million financed under the program in Brazil. The following table shows that 95 percent of relending credits financed sales of large U.S. companies.

<u>Size</u>	<u>Number of transactions</u>	<u>Percent</u>	<u>Amount of funds (millions)</u>	<u>Percent</u>
Large	124	93	\$12.4	95
Medium or small	<u>10</u>	<u>7</u>	<u>.7</u>	<u>5</u>
Total	<u>134</u>	<u>100</u>	<u>\$13.1</u>	<u>100</u>

The President of Eximbank and an SBA official indicated that small- and medium-sized importers tend to purchase from similar-sized U.S. firms. We believe Eximbank's failure to insure that a significant portion of relending credits were made available to small- and medium-sized Brazilian firms resulted in reduced prospects for achieving the program objective of assisting small- and medium-sized U.S. firms to export.

CONFIDENTIAL

ESTABLISHING RELATIONSHIPS  
WITH FOREIGN INSTITUTIONS

The relending program in Brazil enabled Eximbank to establish working relationship with at least 10 local financial institutions. Officials of the intermediaries indicated that, as a result of the program, they intended to participate in the cooperative financing facility. As of December 1971 Eximbank had negotiated agreements with 14 intermediaries in Brazil under the latter program.

CHAPTER 4CONCLUSIONS AND RECOMMENDATIONS

Eximbank established its relending programs to assist small- and medium-sized companies to purchase U.S. products they otherwise would not buy. In so doing, other benefits are expected to accrue, such as introducing U.S. products to foreign markets, assisting U.S. companies in establishing distribution channels, and expanding cooperative working relationships with foreign financial institutions.

After reviewing the relending credit program in Brazil, we conclude that the programs need to be reassessed to find alternative ways to more effectively achieve objectives. Although the program in Brazil strengthened Eximbank's relationship with the local financial community, its other objectives, for the most part, were not achieved, primarily because financial intermediaries were reluctant to service the smaller borrower. This is understandable in light of the cost associated with administering many small loans as compared with a few large loans. Most of the subborrowers were large enterprises which received sizable relending credits, and, according to officials we interviewed, many would have bought from the United States even without Eximbank credits.

We conclude that Eximbank's reliance on Brazilian financial intermediaries to achieve program objectives without an effective system for monitoring their activities permitted the program to fall short of expectations. The program generally did not

- result in export additionality,
- assist small- and medium-sized U.S. and Brazilian firms,
- finance smaller transactions, or
- assist in introducing U.S. products and in establishing distribution channels.

Adequate controls to insure that the program resulted in additional exports were not established, which led to the displacement of either cash sales or sales that would have been financed from other sources. Eximbank did not analyze subloans for export additionality but relied on the intermediaries to determine this. Most intermediaries, however, had no idea as to the extent of additional exports financed with relending credits, as this was not a factor in their decisionmaking. Thus, a formal and permanent reporting system to measure program effectiveness is needed.

Such a reporting system should include, but not be limited to, information from intermediaries concerning:

- Import financing by type of equipment and country of origin for periods before and during availability of relending credits. This data would show increases in import financing for major exporting nations and types of equipment financed.
- Subborrowers' prior purchases of imported equipment, including country of origin and financing source. This data should assist Eximbank to determine whether relending programs are resulting in export additionality and show instances in which U.S. exporters and products were introduced to foreign markets.

Our review raises the question of whether it is reasonable to expect attainment of program objectives under existing relending arrangements. In view of the attractiveness of Eximbank credits compared with the going commercial interest rates in Brazil, it was not surprising that large firms sought relending credits and were favored by the financial intermediaries. Intermediaries might be induced to service the smaller firms if a fee sufficient to cover administrative costs were permitted. The differential between the rate for relending credits and commercial credits in Brazil appears to offer ample opportunity for charging such a fee while still keeping the relending credit rate within acceptable limits. This would increase the probability of additional exports and of introducing more U.S. firms and products to the Brazilian market.

Another way of increasing effectiveness of the program might be to consider establishing a relending credit line administered by the SBA for financing exports of smaller U.S. suppliers. SBA has indicated a willingness to administer a loan program and such an arrangement could assist Eximbank in reaching smaller U.S. firms.

RECOMMENDATIONS

In view of the above, we recommend that Eximbank:

- Establish a formal reporting system which will provide management with documented evidence of program effectiveness and intermediary performance. This would give Eximbank a basis for making appropriate modifications to better attain program objectives.
- Provide for a flexible fee structure so that intermediaries can recoup additional administrative costs associated with increased reporting requirements and servicing smaller loans.

We also suggest that Eximbank consider establishing a relending credit line administered by SBA.

We submitted our draft report to Eximbank for review and comment. The reply (app. II) stated that our efforts were misdirected and our recommendations lacked merit. However, the Eximbank reply does not question the analyses and techniques used to develop the data in our report and fails to comment on many of the specific points raised. Our evaluation of Eximbank's comments is also contained in appendix II.

## LIST OF ACTIVE EXIMBANK RELENDING CREDITS

AS OF JULY 1971

<u>Country</u>	<u>Number</u>	<u>Amount</u> <u>(millions)</u>
Argentina	1	\$10.0
Brazil	10	28.0
Costa Rica	2	1.0
Ecuador	1	3.0
El Salvador	2	2.0
Honduras	4	4.5
Jamaica	1	3.0
Mexico	1	3.0
Nicaragua	1	2.0
Paraguay	1	3.0
Uruguay	1	2.0
Venezuela	1	5.0
Philippines	1	4.0
Taiwan	2	9.8
Thailand	2	2.0
Iran	2	2.1
Israel	1	5.0
Pakistan	<u>2</u>	<u>6.1</u>
Total	<u>36</u>	<u>\$95.5</u>



## EXPORT-IMPORT BANK OF THE UNITED STATES

WASHINGTON, D.C. 20571

PRESIDENT  
AND  
CHAIRMAN

August 24, 1972

CABLE ADDRESS "EXIMBANK"  
TELEX 89-461

Dear Mr. Stovall:

Thank you for the draft copy of the General Accounting Office's report to Congress on Eximbank's relending program. The report reflects a considerable effort on the part of your staff.

That effort, however, was misdirected.

First, the effort concerns a program that has been discontinued and is no longer being offered. The program reviewed was being phased out when your staff started its study and your examiner was informed of this action.

While the report does reflect an awareness that the previous relending credits have been replaced by the Cooperative Financing Facility (CFF) and a new relending facility (RF), it does not make clear that your investigation was centered primarily on the phased-out program. In this respect your report is misleading. [1]

(See GAO note.)

Second, the effort is predicated on an erroneous assumption that the paramount objective of our phased-out relending program was to bring assistance to small- and medium-sized businesses. While assistance to small- and medium-sized businesses is an important objective in all Eximbank programs, this was but one objective, and a secondary one, for that particular program. The primary objective is, of course, to maximize U.S. exports and to achieve payment thereon. Your report nonetheless makes aid to small business appear to be the chief objective. The conclusions, therefore, are based upon an erroneous premise, as are the test interviews emphasizing the size of the firms utilizing the relending credits. [2]

The new CFF and RF programs have been designed by the Export-Import Bank to bring effectively to the foreign marketplace credit facilities to cover purchases in the United States.

GAO note: Numbers in brackets refer to our numbered comments on pp. 35 to 39.

The reason for such an objective is quite obvious. Despite the efforts of American salesmen, buyers abroad are too often unaware of the fact that necessary credit for the purchase of U.S. goods and services is available or, if they are aware of it, they often do not know how to go about getting it. The smaller and medium-sized firms most frequently need the credit facility on their home ground. However, larger firms, too, find it convenient to do business with their own domestic banks, especially for smaller transactions. They also are encouraged to purchase U.S. goods and services by arranging credit through the CFF and RF programs.

We repeat that the objective of the programs is to bring credit to those who need it abroad, whether it be for small or large firms or whether it be for small or large transactions. The report fails to point out that, by operating through foreign financial institutions, the Export-Import Bank is better able to extend assistance to foreign buyers. When the Export-Import Bank must make the credit judgments necessary to establish credit in favor of an individual or corporate buyer, this imposes a burden on both the foreign buyer and on Eximbank. However, when the buyer can deal with his domestic bank, and the Export-Import Bank in turn can deal with a creditworthy financial institution, the whole transaction is facilitated and the sale of American products is thereby more easily accomplished. Obviously the greatest incidence of use will be in smaller transactions by smaller buyers. [3]

Another aspect of the previous relending program which is emphasized in the report is the much debated and controversial subject of "additionality". In support of the thesis that the program has not brought about an additionality commensurate with the amount of credits extended, statements are included from officials of buyer firms to the effect that they would have purchased American equipment even though they had not had access to the Eximbank relending facility. Indeed they may have considered supplier credit supported by one of Eximbank's programs administered by U.S. domestic banks or the Foreign Credit Insurance Association. While either service is available to accomplish its assigned role, to draw a general conclusion that credit does not stimulate purchases is quite contrary to all human and business experience. [4]

It is, of course, impossible to prove mathematically that any one of the programs of the Export-Import Bank results in "x" dollar amount of additional exports, just as no empirical test of AID programs could be devised to ascertain "additionality". Taken together, however, the activities of the Export-Import Bank, including the CFF and RF programs, are, in the opinion of most U.S. exporters, bringing about the sale of a substantial amount of United States products that otherwise would not be sold. It is beyond argument that private credit facilities are supplemented and supported, for they are not able to satisfy the needs of the marketplace to the extent and on the conditions that are made available by the Export-Import Bank. [5]

Since the report is so wide of the mark in its analysis of our relending programs, the recommendations appear to us to be without merit.

First, there is recommended an elaborate reporting procedure with "documented evidence of program effectiveness". We do not feel that it is desirable to encumber the cooperating and relending banks and their customers with a distasteful requirement of written evidence of additionality, including records of prior purchases of imported equipment, country of origin and financing source, as the report suggests. We seek the cooperation of participating foreign banks in the promotion of U.S. export expansion. It is improbable such cooperation would be forthcoming in the face of burdensome reporting requirements.

If the programs are to continue to succeed in supporting U.S. exports, they must be kept as simple as possible, and the paperwork must be minimal.

The need for simplicity applies to Eximbank as well. Last month alone, the Bank processed 68 export loan applications. We have told the cooperating and relending banks that they may expect our decisions in specific loans within two or three days and, although we are becoming hard pressed to maintain this schedule, we are making these deadlines. [6]

We believe that careful selection of eligible product lines under the RF will assure, to a high degree, that the program is not replacing any other financing source and will stimulate purchases from this country's exporters. [7]

One must keep in mind the fact that most U.S. exporters are facing increasing competition, not only in price and quality but also in financing. In support of their exports, Britain, France, Germany, Japan and other countries offer attractive, streamlined, bank-to-bank credit lines with little red tape. We simply do not live in a seller's market today. Certainly, none of these other supplier countries are asking for "evidence of additionality". [8]

A second recommendation of the report is that Eximbank "provide for a flexible fee structure so that intermediaries can recoup additional administrative costs associated with increased reporting requirements and servicing smaller loans". What is meant here, probably, is a higher margin for the cooperating and relending banks; but it should be kept in mind that all costs are reflected in charges to the buyer and must be kept at a minimum if the program is to be effective and U.S. suppliers are to remain price competitive. This factor is especially cogent as it applies to smaller purchasers. [9]

As of this date, the program is operative in 44 countries in some 8 major and 9 minor languages. Even the existing fixed fee structure is difficult for some of our banking customers, who have only limited command of English, to comprehend. It can be understood, therefore, why our every effort is to maximize simplicity.

Third, the report recommends "establishing a relending credit line administered by the Small Business Administration". We have consulted with SBA, looking toward general coordination. However, we are not aware of any existing export financing expertise in SBA.

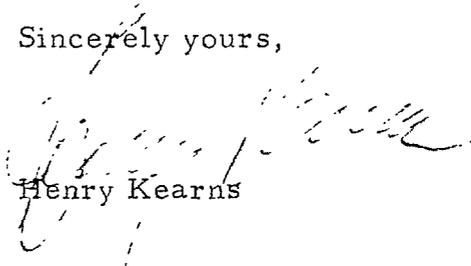
Eximbank is making a concerted and successful effort to reach out to small businesses through bankers of all sizes here

and abroad. Special attention is given to small business in speeches of our own officers, press releases, and in the full range of widely-distributed printed, visual and audio information on the services we offer. We will be pleased to consider any specific suggestions by GAO and SEA for further areas of cooperation. [10]

In view of the current situation herein reported, we hope you will be able to modify the report to accurately describe the efforts made by Eximbank to perform its assigned tasks. To send the report to Congress in its present misleading form would certainly render a disservice to the Export-Import Bank and, more important, to American exporters.

We will be available for further discussion, at your convenience.

Sincerely yours,



Henry Kearns

Mr. Oye V. Stovall  
Director  
International Division  
U.S. General Accounting Office  
Washington, D.C. 20548

GENERAL ACCOUNTING OFFICE COMMENTS ON  
EXIMBANK'S LETTER OF AUGUST 24, 1972

1. At the outset we determined that, although the mechanics of the relending programs differ somewhat, the objectives are the same. We noted that Eximbank had no reporting system providing management with specific information and analyses to evaluate and monitor the effectiveness of relending activities. Accordingly, despite the differences in the programs, our analyses and recommendations have general applicability. Most Brazilian intermediaries under the relending credit program will also participate in the relending facility and/or cooperative financing facility programs.

The draft report stated that our case study was restricted to the relending credit program and that, although Brazilian intermediaries received credits under both the relending facility and the cooperative financing programs, no disbursements had been made at the time of our review.

2. The report states that Eximbank's policy is to provide financing leading to export additionality and lists five additional objectives which relending programs are designed to achieve. One of these objectives is to assist small- and medium-sized foreign firms to purchase U.S. products. The report measures the effectiveness of the program in meeting all the objectives.

3. Eximbank's recent descriptions of both the relending facility and the cooperative programs emphasize assistance to small- and medium-sized businesses. For example, in the letters sent to institutions accepted for participation in the programs, Eximbank stated:

"The sole purpose of Eximbank's assistance [Relending Facility] is to assist purchasers and to expand the U.S. exports of the Eligible Items set forth in the attached list by making loans and assuring the availability of funds necessary to support purchases by small and medium sized enterprises in the private sector in those countries for which lists have been established."  
(Underscoring supplied.)

"The primary purpose of Eximbank's assistance [Cooperative Financing Facility] is to assist purchasers and to expand U.S. exports by making loans and assuring the availability of funds necessary to support purchases by small and medium sized enterprises in the private and public sector in any country with which Eximbank is authorized to do business." (Underscoring supplied.)

Our analyses showed that about 85 percent of the relending credits in Brazil went to large companies. More importantly, however, officials of most Brazilian intermediaries expressed a reluctance to extend subloans to smaller firms.

With respect to the amount of individual subloans, we also found that intermediaries were reluctant to extend subloans in smaller amounts and that most institutions had minimums. For example, an intermediary, in a brochure describing its import-financing programs, states that under the relending program and the newly authorized cooperative financing program the minimum subloan is \$50,000. However, no minimums are reported under Italian and French import-financing programs.

4. Additionality should be an important aspect of all Eximbank programs since Eximbank financing provides the United States with direct benefits only when additionality results. The United States gains its most immediate balance-of-payments advantage when exports are sold for cash or financed with other than U.S. funds.

Of the 17 firms which would have purchased in the United States regardless of the availability of relending credits, only four ever used supplier credits. These four firms, as well as 12 others, had used cash and/or non-U.S. source financing to pay for previous imports from the United States.

The report contains no "general conclusion that credit does not stimulate purchases."

5. Our conclusion regarding additionality was not based upon a mathematical model but rather an analysis of information obtained in interviews with officials of Brazilian firms

which received relending credit subloans and with representatives of the Brazilian financial community.

We did not attempt to ascertain U.S. exporters' attitudes toward Eximbank's various programs. However, we discussed the relending program with officials of a U.S. company which had about \$2.4 million of its Brazilian sales financed with relending credits. The \$2.4 million represented about 15 percent of total credits authorized at the time of our visit and constituted the largest amount of sales financed for any U.S. firm. Company officials stated that they were unaware that any of their sales had been financed with relending credits.

The question is not whether Eximbank relending activities supplement and support private credit facilities in foreign markets, but whether such funds increase U.S. exports and do not substitute for other methods of payments.

6. Although we recognize that foreign intermediaries would prefer to have no restrictions placed on Eximbank funds, we believe Eximbank must obtain specific information regarding program operation to be able to provide the Congress with reasonable assurance that its funds are used effectively. The implementation of a system providing such information need not necessarily encumber either Eximbank or the intermediaries. By using a questionnaire submitted to intermediaries and importers, Eximbank could easily obtain data appropriate for gauging whether program objectives were being achieved. In their visits to overseas users of relending funds, the Eximbank staff could, on a sampling basis, verify the information supplied.

7. According to Eximbank, the product categories eligible for financing under the relending credit program were carefully selected on the basis of economic studies. Despite this, few sales were made under the program in Brazil which would not otherwise have been made. If restricting eligible product categories could increase prospects that Eximbank financing programs result in additional U.S. exports, such a restriction would seem appropriate for the cooperative financing facility. The latter program, however, does not contain such a requirement.

## APPENDIX II

8. Congressional legislation requires that Eximbank supplement and encourage, and not compete with, private capital. The President of Eximbank, in recognition of this restriction, has stated that Eximbank is a lender of last resort. Its financing is intended to enable U.S. firms to sell to foreign importers unable or unwilling to purchase for cash and unable to obtain credit from private sources.

9. As indicated previously, Eximbank relending programs emphasize assistance to small- and medium-sized firms. Despite this and the fact that subborrowers, agents for U.S. firms, and other members of the Brazilian business community stated that small- and medium-sized firms experienced the greatest difficulty in obtaining financing, our analysis showed that large firms received most relending credits in Brazil. We noted that officials of most intermediaries expressed little interest in extending subloans to the small- and medium-sized firms.

Recognizing the foregoing and desiring to retain the present intermediary system, we recommended a flexible fee structure. This is an attempt to provide an incentive which, as stated in the report, might induce intermediaries to provide financing to the small- and medium-sized firms. With respect to additional costs being reflected in charges to the buyer and having an adverse effect particularly on the smaller firm, it should be noted that the cooperative financing facility as presently designed results in a similar situation. Under the cooperative financing program, Eximbank lends the intermediaries 50 percent of the funds requested by a subborrower; the intermediary supplies the remainder. These latter funds are in most cases more expensive and, accordingly, the final interest rate charged a subborrower is higher than under the relending facility.

In any event the effective rate of alternative financing to a smaller Brazilian firm is between 15 and 20 percent, while the rate for Eximbank funds is 8.5 percent. The difference between the two rates provides ample opportunity to increase the fee while keeping the relending credit rate within acceptable limits.

10. We suggested in our draft report that Eximbank allow SBA to administer a relending credit program because of SBA's

familiarity with the small business community in the United States. Their expertise could be used to service those firms most in need of export financing assistance. In addition, a committee of the Congress has suggested that SBA become more active in international trade matters. Administering a credit line for exports seems consistent with Congressional intent and could provide greater assurance that relending program objectives would be achieved. The present program relies on foreign intermediaries who have little incentive to achieve U.S. export objectives.

In responding to our draft report, SBA advised us that it was willing to explore the feasibility of establishing a cooperative plan with Eximbank.

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PRINCIPAL OFFICIALS OF THE EXPORT-IMPORT BANK  
OF THE UNITED STATES

	<u>Position</u>	<u>Date of appointment</u>
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Henry Kearns	President and Chairman	3-20-69
Walter C. Sauer	First Vice President and Vice Chairman	9-28-62
Tom Lilley	Director	10-26-65
R. Alex McCullough	Director	5-21-69
John C. Clark	Director	6- 3-69
OFFICERS:		
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